

Fiscal Services Division

Legislative Services Agency

Fiscal Note

HF 729 - Public Pension Omnibus (LSB 1330 HV)

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Fiscal Note Version – As Amended and Passed by the Senate

Description

House File 729, as Amended and Passed by the Senate, (H-8029), makes several changes to the Iowa Public Employees' Retirement System (IPERS) and the Iowa Judicial Retirement System. This Fiscal Note will examine the substantive changes with a significant cost.

1. For IPERS, creates a new definition of "fully funded." IPERS would be considered "fully funded" when the System assets are at least equal to the System liabilities.
2. For IPERS, changes the calculation of average covered wages to prevent "spiking" of retirement benefits by limiting the covered wage that determines benefits to the lesser of the member's three-year average covered wage and 121.00% of the members highest annual wage not included in the three-year average.
3. For IPERS, reduces the number of years that increases in contribution rates are permitted from eight years to four years and the rate increase from 4.00% to 2.00%.
4. For IPERS, specifies that retirement investment plan contributions by the employer will be considered during the determination of \$30,000 reemployment wages before a reduction in the member's retirement allowance is made.
5. For IPERS, specifies that additional funds will not be credited to the Favorable Experience Dividend (FED) Fund until the System is "fully funded".
6. For IPERS, specifies that an amount to be credited to a member's supplemental account will be reduced when the System determines that crediting the account would significantly impact the funded status of the System.
7. For IPERS, specifies that benefit increases will not be enacted, unless contribution rates are increased to fully pay for the increased benefits, or the System would remain fully funded after the benefit increase.
8. For IPERS, changes the date a pension flexibility report is due to the Interim Retirement and Pensions Committee from January 1, 2006, to October 1, 2007.

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (IPERS)

The Bill, as Amended and Passed by the Senate, permits the IPERS to adjust the total employee and employer contribution rates by up to 0.50% each year beginning in FY 2008, and ending in FY 2011, with the employee paying 0.20% (40.00%) and the employer paying 0.30% (60.00%) above the current applicable percentages. The current applicable percentage for employees is 3.70% and for employers it is 5.75%, for a total contribution of 9.45%. The maximum contribution rate could be 4.50% for employees and 6.95% for employers, for a total contribution of 11.45%. After FY 2011, the rates will remain the same as in FY 2011.

The IPERS will only adjust the rates for the following year if the prior years combined contributions will be insufficient to amortize the unfunded actuarial liability of the System within ten years by increasing the total contribution to a rate that will amortize the unfunded actuarial liability of the System within ten years. However, the combined rate will never be below the prior year's rates.

As Amended by the Senate, the Bill requires the Public Retirement Systems Committee to study and report to the General Assembly, by October 1, 2007, on previous studies and reports pertaining to, pension flexibility, supplemental defined contribution plans, and cost-of-living adjustment plans.

Assumptions

1. A 4.00% annual payroll growth is assumed.
2. Contribution rates will only be impacted by the changes in the Bill.
3. The number of members by employer and covered payroll for FY 2005 are as follows:

Employer	Active Member Counts	FY 2005 Covered Payroll (\$ in millions)
State	19,924	\$ 919.6
Board of Regents	2,037	41.0
Counties	24,011	745.9
Cities	22,093	639.9
Schools	78,534	2,266.2
Community Colleges	3,528	128.3
Other	8,565	289.0
Total	158,692	\$ 5,029.9

4. The number of members in each class will remain constant.
5. A combined regular IPERS contribution will be insufficient to amortize the unfunded actuarial liability of the System within ten years in FY 2008 through FY 2011.

Fiscal Impact

The Regular IPERS employees' current contributions of 3.70% and employers' contributions of 5.75% will increase as follows:

	Employees' Contribution Rate	Employers' Contribution Rate	Total Contribution Rates
FY 2006	3.70%	5.75%	9.45%
FY 2007	3.70%	5.75%	9.45%
FY 2008	3.90%	6.05%	9.95%
FY 2009	4.10%	6.35%	10.45%
FY 2010	4.30%	6.65%	10.95%
FY 2011	4.50%	6.95%	11.45%
FY 2012	4.50%	6.95%	11.45%

ATTACHMENT 1 provides a detailed explanation of the impact of HF 729, as amended, on the employees and employers, by employer group for FY 2008 through FY 2012. The average change per employee varies by employer group due to the variance in the average wage of the groups. An employee that earns a higher wage will have their contribution increase more than an employee with a lower wage.

The estimated total employer increases are \$17.0 million for FY 2008 and \$35.3 million for FY 2009, as shown in the table below.

(Dollars in Millions)		
Employer	FY 2008	FY 2009
State	\$ 3.1	\$ 6.5
Board of Regents	0.1	0.3
Counties	2.5	5.2
Cities	2.2	4.5
Schools	7.7	15.9
Community Colleges	0.4	0.9
Other	1.0	2.0
Total Regular	<u>\$ 17.0</u>	<u>\$ 35.3</u>

There will be no significant fiscal impact for the Public Retirement Systems Committee report on previous studies and reports pertaining to pension flexibility, supplemental defined contribution plans, and cost-of-living adjustment plans.

JUDICIAL RETIREMENT SYSTEM

The Bill, as Amended and Passed by the Senate, makes two changes to the Judicial Retirement System.

The Bill, as amended, changes how a judge's contribution is calculated. Under current law, judges contribute 5.00% of their salary. As amended, the Bill increases the contribution to 6.00%, if the State contributes the required 23.70% of covered payroll. If the State fails to fully fund the State's share, the judges required contribution is based upon the ratio of the State's actual contribution to the required contribution. Once the System is fully funded, which is defined by the Bill, to be 90.00% of the System's actuarially determined liabilities, the judges and the State will contribute 50.00% of the required contribution. The required contribution is defined by the Bill as the rate that will amortize any unfunded liabilities of the System with 20 years.

The Bill, as amended, reduces the vesting requirement from six years to four years. When a judge becomes vested, the judge is eligible to obtain a retirement annuity rather than return the judge's contribution.

The Bill, as amended, also reduces the number of years of service a judge must have in order to receive an unreduced retirement allowance from the current 25 years to 20 years, if the judge is at least 50 years of age.

The Bill, as amended, increases the multiplier that is used to determine the retirement payment from 3.00% to 3.25% per year of service, and increases the maximum percentage of the judge's salary that payments are based upon to 65.00% from 60.00%. The multiplier is also increased for judges on senior status without an increase in the maximum percentage.

Assumptions

1. The covered payroll for FY 2007 will be \$22.2 million.
2. Under current law, the State would be required to contribute \$5.3 million (23.70% of covered payroll). The Judges would be required to contribute \$1.1 million (5.00% of covered payroll). The State would be contributing 82.81% and the judges would be contributing 17.19%, of the total funding.
3. While the State contributed \$2.0 million in FY 2006, the estimate assumes the State will fully fund the State's 23.70% contribution at \$5.3 million.
4. The actuarial calculation for reducing the number of years of service a judge must have in order to receive an unreduced retirement allowance from the current 25 years to 20 years requires a 2.52% increase in contributions.
5. While the actuarial calculation for increasing the multiplier that is used to determine the retirement payment from 3.00% to 3.25% per year of service, and increasing the maximum percentage of the judge's salary that payments are based upon to 65.00% from 60.00% is not available, a 3.50% multiplier with a 70.00% maximum percentage would require a 6.91% increase in contributions.

Fiscal Impact

Under this Bill, as Amended and Passed by the Senate, the State would be required to contribute \$5.3 million (23.70% of covered payroll). The Judges would be required to contribute \$1.3 million (6.00% of covered payroll). The State would be contributing 80.30% and the judges would be contributing 19.70%, of the total funding.

If the State notwithstanding the 23.70% required contribution and continues to contribute \$2.0 million, this would be 9.01% of covered payroll, and the Judges would be required to contribute \$506,000 (2.28% of covered payroll). The State would be contributing 79.81% and the judges would be contributing 20.19%, of the total funding.

The judges' contributions will increase by an estimated \$222,000 annually due to increasing their contribution from 5.00% to 6.00%.

Reducing the number of years of service a judge must have in order to receive an unreduced retirement allowance from the current 25 years to 20 years will have an estimated negative annual impact on the System of \$559,000.

Increasing the multiplier that is used to determine the retirement payment from 3.00% to 3.25% per year of service, and increasing the maximum percentage of the judge's salary that payments are based upon to 65.00% from 60.00% will have an estimated negative annual impact on the System of less than \$1.5 million.

The State making the required contribution will benefit the System by an estimated \$3.3 million annually.

The net benefit to the Judicial Retirement System of House File 729, as Amended and Passed by the Senate, will be an estimated \$1.4 million annually.

Sources

Iowa Public Employees' Retirement System (IPERS)
Milliman USA Consultants and Actuaries
Iowa Judicial Retirement System

/s/ Holly M. Lyons

February 22, 2006

The fiscal note and correctional impact statement for this bill was prepared pursuant to Joint Rule 17 and pursuant to Section 2.56, Code of Iowa. Data used in developing this fiscal note and correctional impact statement are available from the Fiscal Services Division, Legislative Services Agency to members of the Legislature upon request.

Attachment 1

House File 729 – Public Pensions Omnibus IPERS

Employer	Active Member Counts	FY 2005 Covered Payroll	Fiscal Year	Current Law Employer Contribution Rate	Adjusted Employer Contribution Rate	Rate Change	Employer Total Contribution Change	Current Law Employee Contr. Rate	Adjusted Employee Contribution Rate	Rate Change	Total Employee Contribution Change	Average Change Per Employee
State	19,584	919,560,703	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	19,584	956,343,131	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	19,584	994,593,856	FY 2007	5.75%	5.75%	0.30%	0	3.70%	3.70%	0.00%	0	0
	19,584	1,034,377,610	FY 2008	5.75%	6.05%	0.30%	3,103,133	3.70%	3.90%	0.20%	2,068,755	106
	19,584	1,075,752,715	FY 2009	5.75%	6.35%	0.30%	6,454,516	3.70%	4.10%	0.20%	4,303,011	220
	19,584	1,118,782,823	FY 2010	5.75%	6.65%	0.30%	10,069,045	3.70%	4.30%	0.20%	6,712,697	343
	19,584	1,163,534,136	FY 2011	5.75%	6.95%	0.30%	13,962,410	3.70%	4.50%	0.20%	9,308,273	475
	19,584	1,210,075,502	FY 2012	5.75%	6.95%	0.00%	14,520,906	3.70%	4.50%	0.00%	9,680,604	494
Board of Regents	2,111	40,957,912	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	2,111	42,596,228	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	2,111	44,300,078	FY 2007	5.75%	5.75%	0.30%	0	3.70%	3.70%	0.00%	0	0
	2,111	46,072,081	FY 2008	5.75%	6.05%	0.30%	138,216	3.70%	3.90%	0.20%	92,144	44
	2,111	47,914,964	FY 2009	5.75%	6.35%	0.30%	287,490	3.70%	4.10%	0.20%	191,660	91
	2,111	49,831,563	FY 2010	5.75%	6.65%	0.30%	448,484	3.70%	4.30%	0.20%	298,989	142
	2,111	51,824,825	FY 2011	5.75%	6.95%	0.30%	621,898	3.70%	4.50%	0.20%	414,599	196
	2,111	53,897,818	FY 2012	5.75%	6.95%	0.00%	646,774	3.70%	4.50%	0.00%	431,183	204
County	23,845	745,864,664	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	23,845	775,699,251	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	23,845	806,727,221	FY 2007	5.75%	5.75%	0.30%	0	3.70%	3.70%	0.00%	0	0
	23,845	838,996,309	FY 2008	5.75%	6.05%	0.30%	2,516,989	3.70%	3.90%	0.20%	1,677,993	70
	23,845	872,556,162	FY 2009	5.75%	6.35%	0.30%	5,235,337	3.70%	4.10%	0.20%	3,490,225	146
	23,845	907,458,408	FY 2010	5.75%	6.65%	0.30%	8,167,126	3.70%	4.30%	0.20%	5,444,750	228
	23,845	943,756,745	FY 2011	5.75%	6.95%	0.30%	11,325,081	3.70%	4.50%	0.20%	7,550,054	317
	23,845	981,507,014	FY 2012	5.75%	6.95%	0.00%	11,778,084	3.70%	4.50%	0.00%	7,852,056	329
City	21,781	639,908,949	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	21,781	665,505,307	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	21,781	692,125,519	FY 2007	5.75%	5.75%	0.30%	0	3.70%	3.70%	0.00%	0	0
	21,781	719,810,540	FY 2008	5.75%	6.05%	0.30%	2,159,432	3.70%	3.90%	0.20%	1,439,621	66
	21,781	748,602,962	FY 2009	5.75%	6.35%	0.30%	4,491,618	3.70%	4.10%	0.20%	2,994,412	137
	21,781	778,547,080	FY 2010	5.75%	6.65%	0.30%	7,006,924	3.70%	4.30%	0.20%	4,671,282	214
	21,781	809,688,963	FY 2011	5.75%	6.95%	0.30%	9,716,268	3.70%	4.50%	0.20%	6,477,512	297
	21,781	842,076,522	FY 2012	5.75%	6.95%	0.00%	10,104,918	3.70%	4.50%	0.00%	6,736,612	309
Schools	74,830	2,266,220,746	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	74,830	2,356,869,576	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	74,830	2,451,144,359	FY 2007	5.75%	5.75%	0.30%	0	3.70%	3.70%	0.00%	0	0
	74,830	2,549,190,133	FY 2008	5.75%	6.05%	0.30%	7,647,570	3.70%	3.90%	0.20%	5,098,380	68
	74,830	2,651,157,739	FY 2009	5.75%	6.35%	0.30%	15,906,946	3.70%	4.10%	0.20%	10,604,631	142
	74,830	2,757,204,048	FY 2010	5.75%	6.65%	0.30%	24,814,836	3.70%	4.30%	0.20%	16,543,224	221
	74,830	2,867,492,210	FY 2011	5.75%	6.95%	0.30%	34,409,907	3.70%	4.50%	0.20%	22,939,938	307
	74,830	2,982,191,898	FY 2012	5.75%	6.95%	0.00%	35,786,303	3.70%	4.50%	0.00%	23,857,535	319
Community Colleges	3,659	128,350,692	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	3,659	133,484,720	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	3,659	138,824,108	FY 2007	5.75%	5.75%	0.30%	0	3.70%	3.70%	0.00%	0	0
	3,659	144,377,073	FY 2008	5.75%	6.05%	0.30%	433,131	3.70%	3.90%	0.20%	288,754	79
	3,659	150,152,156	FY 2009	5.75%	6.35%	0.30%	900,913	3.70%	4.10%	0.20%	600,609	164
	3,659	156,158,242	FY 2010	5.75%	6.65%	0.30%	1,405,424	3.70%	4.30%	0.20%	936,949	256
	3,659	162,404,572	FY 2011	5.75%	6.95%	0.30%	1,948,855	3.70%	4.50%	0.20%	1,299,237	355
	3,659	168,900,754	FY 2012	5.75%	6.95%	0.00%	2,026,809	3.70%	4.50%	0.00%	1,351,206	369
Other:	8,469	289,014,587	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
Townships	8,469	300,575,170	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
Multi-Units	8,469	312,598,177	FY 2007	5.75%	5.75%	0.30%	0	3.70%	3.70%	0.00%	0	0
Utilities	8,469	325,102,104	FY 2008	5.75%	6.05%	0.30%	975,306	3.70%	3.90%	0.20%	650,204	77
	8,469	338,106,189	FY 2009	5.75%	6.35%	0.30%	2,028,637	3.70%	4.10%	0.20%	1,352,425	160
	8,469	351,630,436	FY 2010	5.75%	6.65%	0.30%	3,164,674	3.70%	4.30%	0.20%	2,109,783	249
	8,469	365,695,654	FY 2011	5.75%	6.95%	0.30%	4,388,348	3.70%	4.50%	0.20%	2,925,565	345
	8,469	380,323,480	FY 2012	5.75%	6.95%	0.00%	4,563,882	3.70%	4.50%	0.00%	3,042,588	359
Total Regular	154,279	5,029,878,253	FY 2005	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	154,279	5,231,073,383	FY 2006	5.75%	5.75%	0.00%	0	3.70%	3.70%	0.00%	0	0
	154,279	5,440,313,318	FY 2007	5.75%	5.75%	0.30%	0	3.70%	3.70%	0.20%	0	0
	154,279	5,657,925,851	FY 2008	5.75%	6.05%	0.30%	16,973,778	3.70%	3.90%	0.20%	11,315,852	73
	154,279	5,884,242,885	FY 2009	5.75%	6.35%	0.30%	35,305,457	3.70%	4.10%	0.20%	23,536,972	153
	154,279	6,119,612,601	FY 2010	5.75%	6.65%	0.30%	55,076,513	3.70%	4.30%	0.20%	36,717,676	238
	154,279	6,364,397,105	FY 2011	5.75%	6.95%	0.30%	76,372,765	3.70%	4.50%	0.20%	50,915,177	330
	154,279	6,618,972,989	FY 2012	5.75%	6.95%	0.00%	79,427,676	3.70%	4.50%	0.00%	52,951,784	343